

## BEYOND HATCH-WAXMAN

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### I. READING ACTAVIS

In its 2013 *FTC v. Actavis* decision,<sup>1</sup> the Supreme Court resolved a circuit split on the proper standard for antitrust review of reverse payment settlements. While the resolution boils down to three words, “rule of reason,” the Court’s extensive analysis and the dissenters’ vigorous resistance suggest that something deeper might be at stake. This Article addresses the question of how broadly we should read the majority opinion. Does it apply only to the particular settlement agreement at issue, or has Justice Breyer’s opinion shifted the relationship between antitrust and patent law (and perhaps intellectual property law) beyond the Hatch-Waxman context?

Common law evolves gradually through narrow applications of judicial holdings to new fact patterns.<sup>2</sup> Pushing against the recommendation to read narrowly is the understanding that the implication of a decision extends beyond the particular facts of the case. While a court can limit its ruling to the particular facts and yield a narrow holding, Justice Breyer’s opinion in *Actavis* does not contain such narrowing qualifications. At the same time, the particular holding appears, on its surface, to suggest that reverse payment settlements of the kind that *Actavis* entered into would be subject to antitrust scrutiny under the rule of reason.<sup>3</sup> Perhaps the analysis ends there.

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1. 133 S. Ct. 2223, 2229 (2013).
2. See, e.g., George L. Priest, *The Common Law Process and the Selection of Efficient Rules*, 6 J. LEGAL STUD. 65 (1977).
3. *Actavis*, 133 S. Ct. at 2234–36.

However, Justice Breyer and Chief Justice Roberts engage in an extensive debate about the relationship between patent and antitrust law.<sup>4</sup> Chief Justice Roberts takes the side that as long as the patent owner is enforcing her rights within the scope of the patent, there is no antitrust scrutiny.<sup>5</sup> Justice Breyer, by contrast, urges a different principle: A patent owner can violate the antitrust laws even if acting within the scope of rights provided by the patent grant.<sup>6</sup> The Breyer-Roberts exchanges hint at some broader ruling that lurks beyond the narrow factual context. As this Article shows, many advocates have attempted to ferret out that potentially game-changing principle in cases that are not within the purview of the Hatch-Waxman Act.

Before examining how the *Actavis* decision resonates in advocacy outside of the Hatch-Waxman domain, it is worth examining possible broader readings of Justice Breyer's decision. There are three possibilities: (1) the ruling is about the antitrust scrutiny of all settlements; (2) the ruling is about the antitrust treatment of regulated industries; and (3) the ruling is about the relationship between patent and antitrust beyond the context of generic entry into markets with pharmaceutical patents. Each of these interpretations finds some support in legal materials post-*Actavis*. The central argument of this Article is that the strongest support is for the third reading.

While the evidence in Section Two shows support for reading *Actavis* as a case about settlements and antitrust, that is a narrow reading of the decision, perhaps no broader than limiting the *Actavis* ruling to the reverse payment situation. Justice Breyer does cite antitrust cases involving settlements, but his analysis reaches out to other potential abuses giving rise to antitrust liability.<sup>7</sup> Furthermore, Chief Justice Roberts limits antitrust scrutiny of patents to two situations: fraud in the patent office (or *Walker Process* claims) or sham litigation (or lawsuits brought solely to hurt a competitor).<sup>8</sup> Reducing the *Actavis* ruling solely to situations involving the settlement of lawsuits seems to parallel Justice Roberts's second exception. However, the majority rejects the

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4. *Id.* "Whether a particular restraint lies 'beyond the limits of the patent monopoly' is a conclusion that flows from that analysis and not, as THE CHIEF JUSTICE suggests, its starting point." *Id.* at 2231-32 (internal citation omitted).

5. Patent law "provides an exception to antitrust law, and the scope of the patent—i.e., the rights conferred by the patent—forms the zone within which the patent holder may operate without facing antitrust liability." *Id.* at 2238 (Roberts, C.J., dissenting).

6. *Id.* at 2231.

7. *Id.* at 2231-33.

8. *Id.* at 2239 (Roberts, C.J., dissenting) (citing *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177 (1965); *Profl Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60-61 (1993)).

narrow purview of antitrust advocated by Chief Justice Roberts.<sup>9</sup> Therefore, the narrowest of the three possible broad readings of *Actavis* is too restrictive and not consistent with the language and reasoning of the majority.

Similarly, to conclude that *Actavis* is about antitrust treatment of regulated industries is also narrow, but for different reasons. The use of the term “regulated industries” might appear quaint as harkening back to a time when there was more active regulation of particular industries, sometimes deemed as natural monopolies.<sup>10</sup> With the deregulatory wave of the 1970s and after, one might conclude that “regulated industries” refers to a null set. That conclusion would not be accurate. Perhaps more accurately stated, the past few decades have seen a shift in the extent, form, and type of regulation. The issue is how antitrust law should apply to situations where there is some regulatory structure imposed by Congress. Did Congress by imposing regulation intend to preclude antitrust or can the two regimes coexist?

Notice that the last question is identical to the core question in *Actavis*: What is the relationship between antitrust and patent laws? Not surprisingly, the majority decision may speak to the broader question of regulation and antitrust. A key precedent addressing this broader question is the Supreme Court’s 2004 decision in *Verizon v. Trinko*, in which the Court upheld a rejection of a Section Two claim because of a conflict with Congress’s regulatory scheme for the deregulated telecommunications industry.<sup>11</sup> Writing for the majority, Justice Scalia famously asserted that courts should defer to congressional judgments about how to structure markets.<sup>12</sup> Could some similar reasoning be at work in Justice Breyer’s opinion?

The answer is not entirely clear. Justice Breyer does cite the *Trinko* opinion, but in an oblique way.<sup>13</sup> His reference is brief and not developed and perhaps best characterized as dicta. While Justice Breyer cites

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9. See *Actavis*, 133 S. Ct. at 2230–31.

10. As the Court has stated: “In the absence of a specific statutory immunity . . . such exemptions are not lightly to be implied. Furthermore, no sweeping antitrust exemption is warranted, as it has been in cases involving certain pervasively regulated industries, under the doctrine of ‘primary jurisdiction.’” *Otter Tail Power Co. v. United States*, 410 U.S. 366, 390 (1973) (internal citations omitted).

11. *Verizon Commc’ns, Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 408 (2004).

12. “The Sherman Act is indeed the ‘Magna Carta of free enterprise,’ but it does not give judges *carte blanche* to insist that a monopolist alter its way of doing business whenever some other approach might yield greater competition.” *Id.* at 415–16 (citing *United States v. Topco Assocs., Inc.*, 405 U.S. 596, 610 (1972)).

13. *Actavis*, 133 S. Ct. at 2233.

*Trinko* to remind us that collusion is the supreme evil of antitrust,<sup>14</sup> there is little doubt about that proposition, except for perhaps the extreme characterization as “supreme evil.” He does not quote Justice Scalia’s language from *Trinko*. Nor does Justice Breyer engage in any discussion of the role of antitrust in industries subject to alternative forms of congressional regulation. Nonetheless, the formal similarities with the *Trinko* decision—antitrust in a domain where Congress has imposed regulation—suggest that *Actavis* and *Trinko* may be part of a broader class of antitrust thinking.

The third option overlaps with the second (option), but is limited to the question of how antitrust relates to patent law. This last possible broad reading of *Actavis* might extend more generally to the relationship with intellectual property. However, for the purposes of this Article (and the Symposium), let us focus squarely on patent law. The best case exists for concluding that Justice Breyer’s opinion shifts our understanding of how antitrust and patent laws connect. Chief Justice Roberts’s minimalist role for antitrust scrutiny contrasts with Justice Breyer’s more expansive view. This contrast supports the third option. Also, in support are the notable number of post-*Actavis* cases in which the arguments of *Actavis* are extended to non-reverse payment situations. These notable cases raise issues of copyright law, trademark law, and licensing. While it is true that there is no judicial opinion that endorses a broad reading of *Actavis*, the short period after the 2013 decision gives witness to work by advocates who have, with some degree of early success, pushed *Actavis* beyond its facts.<sup>15</sup> This level of advocacy suggests that *Actavis* might mark a shift in how we think about antitrust review of patent law, and beyond.

One important set of cases where *Actavis* could extend involves settlement of *inter partes* review proceedings brought under the America Invents Act.<sup>16</sup> These proceedings will be discussed in greater detail in Section Two. Briefly, they involve administrative actions brought by private parties seeking to invalidate or narrow patent claims. These proceedings have been added and modified by the patent reforms of 2011 and went into full effect in March 2013, a few months before the *Actavis*

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14. *Id.*

15. See generally Brief of Mem’l Sloan-Kettering Cancer Ctr. & Icahn Sch. of Med. et al. as Amici Curiae Supporting Petitioners, *Kimble v. Marvel Enter., Inc.*, (U.S. Feb. 24, 2014) (No. 13-720), 2014 WL 768320 (example of citation to *Actavis* in amicus brief).

16. See generally *Medline Indus., Inc., v. Hartman AG*, No. IPR 2013-00173, 2014 WL 1097371 (Patent Tr. & App. Bd. Mar. 19, 2014) (example of settlement of *inter partes* review).

decision.<sup>17</sup> Settlements of *inter partes* proceedings typically involve challengers giving up claims in exchange for payment from the patent owner. Should these settlements be deemed suspect under *Actavis*? The argument has been made without any clear resolution yet. This Article makes the case for antitrust scrutiny of these settlements because the *Actavis* decision stands for the proposition that antitrust law should broadly limit patent law on the grounds of competition policy.

The Article proceeds as follows: Section Two offers a summary of the treatment of *Actavis* in contexts beyond that of reverse payment settlements. Section Three analyzes these differing contexts and presents the case for the third option for understanding *Actavis*. The topic of settlements of United States Patent and Trademark Office (USPTO) administrative proceedings is the key argument of Section Three. The Article ends with a conclusion and summary.

## II. TRACING ACTAVIS

Identifying *Actavis*'s reach beyond Hatch-Waxman began with a search on Westlaw of authorities citing the Supreme Court decision. The search was conducted in early December 2014 and it uncovered over 600 citing authorities since June 2013. Thirty-six citations were based in case law and 353 consisted of law reviews and legal periodicals. While I will discuss the case law tangentially through an analysis of trial and appellate documents, it was instructive to examine other sources. Specifically, following the nomenclature of Westlaw, I looked at sixteen Administrative Decisions and Guidance documents, three administrative filings, sixteen practice materials, and 276 litigation documents. The litigation documents consisted of supporting motions and briefs that accompanied the thirty-six cases in which *Actavis* was cited as well as several other cases. Culling through these materials, I discarded authorities that exclusively discussed *Actavis* as a matter of the Hatch-Waxman Act. The remaining documents serve as the basis for the analysis that follows.

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17. See UNITED STATES PATENT AND TRADEMARK OFFICE, *INTER PARTES* DISPUTES, [http://www.uspto.gov/aia\\_implementation/bpai.jsp](http://www.uspto.gov/aia_implementation/bpai.jsp) (last visited Apr. 17, 2015) [hereinafter *INTER PARTES* DISPUTES]

### A. Administrative Decisions and Guidance

These sixteen references include: speeches made by FTC Commissioners (Wright, Brill, Ohlhausen),<sup>18</sup> Assistant Attorney General of the Antitrust Division of the Department of Justice (Bill Baer),<sup>19</sup> the Director of the Bureau of Competition for the FTC (Deborah Feinstein),<sup>20</sup> and a short press release from the FTC announcing the filing of an amicus brief in a case involving authorized generics.<sup>21</sup> Ten of these references discuss *Actavis* solely in terms of reverse payment settlements and the Hatch-Waxman Act.<sup>22</sup> The other six discuss the decision in broader terms, in some instances very glibly, in others with greater depth.<sup>23</sup>

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18. Joshua D. Wright, Comm'r, FTC, Antitrust Analysis of Reverse Payment Settlements After *Actavis*: Three Questions and Proposed Answers, Remarks at the American Bar Ass'n's Antitrust Masters Course VII in Williamsburg, Virginia (Oct. 10, 2014) [hereinafter Wright, Analysis of Reverse Payment Settlements After *Actavis*]; Julie Brill, Comm'r, FTC, Antitrust & Innovation: Rebalancing the Scale, Statement at the Int'l Bar Ass'n Meeting (Sept. 14, 2013) [hereinafter Brill, Antitrust & Innovation]; Maureen K. Ohlhausen, Comm'r, FTC, A Pragmatist's Approach to Navigating the Intersection of IP & Antitrust, Statement at the 2013 Standards & Patents Conference, London, United Kingdom (Dec. 4, 2013) [hereinafter Ohlhausen, A Pragmatist's Approach].

19. Bill Baer, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, Connecting the Antitrust Dots: In Praise of Herbert Hovenkamp, Remarks as Prepared for the *University of Iowa Law Review Centennial Symposium Honoring the Work of Professor Herbert Hovenkamp* (Oct. 23, 2014) [hereinafter Baer, Connecting the Antitrust Dots].

20. Deborah L. Feinstein, Bureau of Competition, FTC, Director's Report (Spring 2014) [hereinafter Feinstein, Director's Report].

21. Press Release, FTC, Federal Trade Commission Submits Proposed Amicus Brief Concerning "No-Authorized-Generic" Commitments in Drug Companies' Patent Settlements (Aug. 16, 2013) [hereinafter FTC Submits Proposed Amicus Brief] (on file with author).

22. See, e.g., Joshua D. Wright, Comm'r, FTC, *FTC v. Actavis* & the Future of Reverse Payment Cases, Concurrences Annual Dinner (Sept. 26, 2013); Wright, Analysis of Reverse Payment Settlements After *Actavis*, *supra* note 18; Terrell McSweeney, Comm'r, FTC, Remarks at the Private Antitrust Enforcement Conference (Dec. 2, 2014); Feinstein, Director's Report, *supra* note 20; Ohlhausen, A Pragmatist's Approach, *supra* note 18; FTC, FTC Submits Proposed Amicus Brief, *supra* note 21; Baer, Connecting the Antitrust Dots, *supra* note 18; Joshua D. Wright, Comm'r, FTC, Does The FTC Have A New IP Agenda?, 2014 Milton Handler Lecture: "Antitrust in the 21st Century," The New York City Bar Ass'n (Mar. 11, 2014) [hereinafter Wright, Does The FTC Have A New IP Agenda?]; Bill Baer, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, Public & Private Antitrust Enforcement in the U.S., Remarks as Prepared for Delivery to European Competition Forum 2014 (Feb. 11, 2014) [hereinafter Remarks as Prepared for Delivery to European Competition Forum]; Bill Baer, Assistant Attorney Gen., Antitrust Div., U.S. Dep't of Justice, Pub. & Private Antitrust Enforcement in the U.S., Remarks as Prepared for Delivery to the New York State Bar Ass'n (Jan. 30, 2014).

23. See, e.g., Julie Brill, Comm'r, FTC, What's Past is Prologue: FTC's Competition & Consumer Protection Priorities, ABA Fall Forum Keynote Address (Nov. 6, 2014); Joshua D. Wright, Comm'r, FTC, The FTC's Role in Shaping Antitrust Doctrine: Recent Successes &

For example, Assistant Attorney General Baer described the *Actavis* decision as an example of “a very active plaintiff’s bar.”<sup>24</sup> Commissioner Ohlhausen, in a bar lecture on the theme of “Standards and Patents,” discussed the tension between innovation investments and issues of efficiency and wealth maximization in balancing antitrust and patent laws.<sup>25</sup> Director Feinstein stated in her Spring 2014 *Director’s Report* that *Actavis* had overturned the scope of the patent test.<sup>26</sup> Her description was not limited to the reverse payment context and suggested a broader interpretation of the *Actavis* decision. During a symposium in honor of Professor Herbert Hovenkamp, Assistant Attorney General Baer mentioned the citation to the *Hovenkamp Antitrust Treatise* by Justice Breyer and viewed the case as confirming the centrality of the rule of reason in antitrust.<sup>27</sup> These five instances hint at a potentially broader reading of the *Actavis* decision, one that reaches beyond its particular facts.

Commissioner Joshua Wright provided a more extensive discussion of *Actavis* in his March 2014 lecture to the New York City Bar Association.<sup>28</sup> Wright illustrates, in this speech, a more pro-business economics orientation to the enforcement of the antitrust laws through the discussion of the symmetry principle in the application of antitrust law to intellectual property.

As articulated by Commissioner Wright, the symmetry principle requires that antitrust law apply equally to real property and intellectual property. What this means is that antitrust law should respect property rights and their role in promoting markets. Support for the symmetry principle is grounded in Judge Jackson’s statement in *United States v. Microsoft* that property ownership does not create immunity from antitrust any more than ownership of a baseball bat creates immunity from tort or criminal law.<sup>29</sup> The symmetry principle shifts antitrust

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Future Targets, 2013 *Georgetown Annual Antitrust Symposium Dinner* (Sept. 24, 2014); Joshua D. Wright, Comm’r, FTC, Recent Antitrust Enforcement & Policy Initiatives at the U.S. FTC, ABA Section of Int’l Law Conference: China—Inside & Out Roundtable with Enforcers (Sept. 16, 2013); Brill, Antitrust and Innovation, *supra* note 18; Terrell McSweeney, Comm’r, FTC, Remarks in Front of Cravath Bar Inst. for Corporate Counsel, New York City, NY (Dec. 10, 2014).

24. See Baer, Remarks as Prepared for Delivery to European Competition Forum, *supra* note 22.

25. See Ohlhausen, A Pragmatist’s Approach, *supra* note 18.

26. See Feinstein, Director’s Report, *supra* note 20.

27. See Baer, Connecting the Antitrust Dots, *supra* note 19.

28. Wright, Does the FTC Have A New IP Agenda?, *supra* note 22.

29. *Id.* at 5.

scrutiny towards conduct in the use of property, rather than on the status relationships that arise from ownership.

Perhaps surprisingly, Commissioner Wright sees the *Actavis* decision as consistent with the symmetry principle.<sup>30</sup> His positive appreciation of Justice Breyer's opinion may conflict with the Commissioner's conservative orientation.<sup>31</sup> Justice Roberts's narrow conception of antitrust scrutiny of patents might predictably be more appealing to Commissioner Wright.<sup>32</sup> But Justice Breyer's analysis focuses on conduct—rather than ownership—and therefore is more consistent with the symmetry principle.<sup>33</sup> What matters for antitrust purposes is what one does with one's property, whether real, personal, or intellectual. If that use is inconsistent with the pro-market purpose of property, then antitrust must provide limits on property abuses.

What constitutes an abuse, however, is not completely clear. Implicit in Commissioner Wright's symmetry principle is the role of property rights in traditional antitrust analysis and the adoption of *per se* rules and rule of reason as appropriate.<sup>34</sup> Therefore, Commissioner Wright's approval of Justice Breyer's opinion represents an endorsement of rule-

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30. "The Supreme Court's analysis in *FTC v. Actavis* is perfectly consistent with the symmetry principle, holding that the rule of reason applies to horizontal arrangements capable of generating efficiencies—including patent settlements in the Hatch-Waxman context." *Id.* at 4.

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For example, former FTC Chairmen Timothy Muris and William Kovacic and current Commissioner Joshua Wright are Republicans and antitrust conservatives, while former Chairmen Robert Pitofsky and Jon Leibowitz are Democrats and antitrust liberals. (Former Commissioner Pamela Jones-Harbour is an Independent and an antitrust liberal.) There are exceptions, of course; for example, former FTC Commissioner Thomas Rosch is a Republican but his views on antitrust enforcement are more similar to those of antitrust liberals.

Marina Lao, *Ideology Matters in the Antitrust Debate*, 79 ANTITRUST L.J. 649, 680 n.155 (2014).

32. *See id.*

33. *See* *FTC v. Actavis, Inc.*, 133 S. Ct. 2223, 2231–33 (2013) (Justice Breyer setting forth various types of conduct that would violate the antitrust laws).

34.

A corollary of the symmetry principle is that antitrust claims involving IPRs are not entitled to special presumptions or relaxed burdens of production or proof on the grounds that IPRs are involved rather than real property. Clearly, symmetry is perfectly consistent with the use of truncated analysis such as a *per se* prohibition where it would be appropriate for both IPRs and real property.

Wright, *Does the FTC Have a New IP Agenda?*, *supra* note 22, at 2.

of-reason analysis in antitrust analysis, particularly when antitrust comes into tension with property law.

Needless to say, there are reasons to be skeptical of the symmetry principle. At one level, there is superficial appeal in its abstractness and its generality. Commissioner Wright, through his principle, identifies a simple, practical approach that allows antitrust law and intellectual property law to realize their goals of promoting markets. But the principle's generality also makes it elusive, reducing antitrust law to a case-by-case analysis and balancing of oftentimes unmeasurable effects. If the goal of property law is clarity and predictability, antitrust law fashioned on the rule of reason undermines both of these virtues. One has to ask how to reconcile these conflicts. A possible answer is that antitrust law should intrude very little with intellectual or other forms of property. Commissioner Wright's endorsement of *Actavis* may in fact be a weak and narrow one.

Nonetheless, advocates might find some solace in Commissioner Wright's words as supporting a broader reading of *Actavis*. The Commissioner looked beyond the facts of *Actavis* to distill broader principles. These principles in turn need further articulation, but the New York City Bar speech provides hope that *Actavis* is not a narrow opinion. Rather, it may shift the relationship between antitrust and patent. Further evidence for this shift springs from administrative decisions and cases in which the specter and reality of *Actavis* resonate.

### *B. Administrative Filings*

Disputants in three administrative proceedings have built arguments based on the *Actavis* decision to support arguments challenging settlements. One citation arose in a United States International Trade Commission proceeding brought by Toyo, a tire company, against imports of tires into the United States by South China Tire and Rubber Company.<sup>35</sup> Toyo claimed that South China's imports infringed its U.S. patents and trademarks. As a complainant, Toyo offered a settlement with South China and filed a motion for summary determination with the Commission.<sup>36</sup> In January of 2014, South China filed an opposition to the motion, challenging the settlement as patent misuse.<sup>37</sup> The Commission

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35. See Complainant's Opposition to Respondent's Motion for Summary Determination on the Grounds of Patent Misuse, *In re Certain Tires and Products Containing Same*, No. 337-TA-894 (U.S. Int'l Trade Comm'n Jan. 13, 2014), (No. 894-023), 2014 WL 185452.

36. See *id.*

37. See generally *id.*

rejected South China's argument, finding that under a rule-of-reason analysis there were procompetitive benefits to the settlement, citing *Actavis* for the rule of reason standard.<sup>38</sup>

While the Toyo dispute illustrates an application of *Actavis* to a settlement agreement, the application is to a non-pharmaceutical patent and a trademark—specifically, the trade dress of the tire. The settlement, furthermore, is not within the regulatory framework of Hatch-Waxman. The administrative decision illustrates the applicability of *Actavis* to the broader issues of antitrust law and intellectual property. While the ruling itself is not precedential, it illustrates an application that could provide a basis for arguments in court proceedings. The discussion in Section D below illustrates the possibilities.

More squarely within the domain of patent settlements are two decisions by the Patent Trial and Appeal Board (hereinafter "PTAB") involving settlements in *inter partes* proceedings.<sup>39</sup> *Inter partes* proceedings were introduced under the 1952 Patent Act and reformed by the America Invents Act. Through *inter partes* proceedings, an opposing party can introduce prior art to challenge the novelty or non-obviousness of a patent more than nine months after a patent has been issued. Such proceedings can be initiated as part of a litigation to resolve issues of patent validity.

Both PTAB opinions involve settlements of *inter partes* proceedings. The terms of these settlements are not published, and in each case the parties requested the Board to maintain the confidentiality of the settlements as business information. In both, the Board upheld the settlements, citing Justice Roberts's dissent in *Actavis* for the proposition that settlements of disputes are valuable and promote certainty and efficiency.<sup>40</sup>

Although the terms of the settlements are confidential, some details can be gleaned from the published Board decisions. The first decision, from December 2013, arises from litigation between MobileMedia Ideas, LLC, and Blackberry Corporation over a patent relating to mobile technology.<sup>41</sup> The defendant Blackberry sought the *inter partes* proceeding to challenge the validity of the patent.<sup>42</sup> The owner sought a settlement and dismissal of the proceeding and the litigation.<sup>43</sup> The other

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38. *See id.*

39. *See INTER PARTES DISPUTES*, *supra* note 17.

40. *Actavis*, 133 S. Ct. at 2243 (Roberts, C.J., dissenting).

41. *See* Blackberry Corp. v. MobileMedia Ideas, LLC, No. IPR2013-00016, 2013 WL 8705625 (Patent Trial & Appeal Bd., Dec. 11, 2013).

42. *See id.*

43. *See id.*

decision, from March 2014, involved an individual patent owner, Paul Hartmann, whose patent on a medical device was challenged by Medline Industries through an *inter partes* proceeding.<sup>44</sup> As the identity of the patent owners and nature of technology show, neither dispute involved pharmaceuticals or Hatch-Waxman issues.

The PTAB rulings are odd and troubling applications of the *Actavis* decision. They both affirm settlements that are arguably anticompetitive since the settlements serve to insulate the patents from administrative scrutiny. An open question is whether these settlements should be subject to antitrust scrutiny, an issue that the PTAB does not have the authority to assess. As Section Three demonstrates, these two PTAB decisions are indicative of another area where a legal proceeding is used for potentially anticompetitive purposes. Justice Breyer's decision should extend to these settlements of patent disputes under the rule of reason.

### C. Practical Guidelines

The materials under the *Practical Guidelines* include writings by practitioners assessing the implications of the *Actavis* decision for antitrust and patent litigation. With their focus on case law, these materials serve as a bridge between the administrative materials and the discussion of trial and appellate litigation documents in the next section. Of the sixteen documents that make reference to *Actavis*, only one assesses the *Actavis* decision outside the scope of the Hatch-Waxman Act. That sole document discusses the antitrust implications of patent assertion entities (PAE's), also known as patent trolls.<sup>45</sup> Specifically, the author points to the role of Section 6(b) of the Federal Trade Commission Act in allowing the Commission to gather empirical evidence as support for an antitrust action.<sup>46</sup> A Section 6(b) report, the author argues, would be a useful tool for developing a litigation strategy against patent trolls much like the FTC's use of the tool to begin its case against reverse payment settlements starting in 2002. Although the author does not draw on *Actavis* to develop a broad legal theory, the document does demonstrate what *Actavis* teaches about FTC strategy to address anticompetitive behavior. Some other strategies drawing on *Actavis*

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44. Joint Motion to Terminate *Inter Partes* Review and Joint Request that the Settlement Agreement be Treated as Business Confidential Information, Medline Indus., Inc. v. Hartmann AG, No. IPR 2013-00173, 2014 WL 1097371 (Patent Trial & Appeal Bd., Mar. 19, 2014).

45. See generally Logan M. Breed, *Addressing the Patent Assertion Entity Problem*, PRAC. L. CO., Sept. 30, 2014, at 583–1125.

46. See 15 U.S.C. § 46(b) (2012).

surfaced in the litigation pursued after 2013 outside the reverse payment context. These strategies are the subject of the next section.

*D. Trial and Appellate Litigation Documents*

Litigants and judges have turned to phrases and arguments in the *Actavis* decision to buttress antitrust and patent misuse claims in a number of cases outside the Hatch-Waxman context. A counting based on a review of the “citing authorities” tab for the *Actavis* decision conducted in early December of 2014 uncovered nine cases that support application of the *Actavis* holding beyond its facts. These nine, wide-ranging cases include anticompetitive claims against non-practicing entities, claims involving abuse of copyright and trademarks, patent misuse defenses, and general assertions that rule-of-reason analysis applies to all antitrust claims involving intellectual property. While nine cases may not seem substantial, the emergence of these disputes (and the ensuing legal arguments) less than two years after the Supreme Court’s decision indicates a potential wide reach beyond Hatch-Waxman.

Given the pace of the litigation process, only a handful of cases which cite *Actavis* have moved to a final judgment followed by a pending appeal to the Federal Circuit. Intellectual Ventures filed a patent infringement suit against Capital One on June 19, 2013.<sup>47</sup> The complaint alleged violations of several thousands of software and business method patents owned by Intellectual Ventures. As pointed out by Capital One in one of its filings, the June 19th complaint was part of a number of suits brought by Intellectual Ventures against other financial entities.<sup>48</sup> As is well known by now, numerous lawsuits, each raising claims of infringement involving a large number of patents, fit the profile of patent-trolling behavior.<sup>49</sup>

In October 2013, Capital One filed an antitrust counterclaim against Intellectual Ventures, alleging that seeking royalties for a large portfolio of patents, some of which would likely be invalid, constitutes patent misuse and monopolization.<sup>50</sup> Justice Breyer’s majority opinion was notably cited by Capital One in countering Intellectual Ventures’s motion

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47. Intellectual Ventures I LLC v. Capital One Fin. Corp., No. 1:13-cv-00740, 2013 WL 6682981, at \*1 (E.D. Va. Dec. 18, 2013).

48. Brief of Cross-Appellants at 1, Intellectual Ventures I LLC v. Capital One Fin. Corp., No. 14-1506 (Fed. Cir. Oct. 14, 2014), 2014 WL 5427847, at \*1.

49. See, e.g., Colleen V. Chien, *Of Trolls, Davids, Goliaths, and Kings: Narratives and Evidence in the Litigation of High-Tech Patents*, 87 N.C. L. REV. 1571, 1579–80 (2009).

50. *Intellectual Ventures I LLC*, 2013 WL 6682981, at \*1.

to dismiss the counterclaims.<sup>51</sup> As Capital One argued, the *Actavis* decision invites antitrust scrutiny of patents, especially when the patent owner attempts to obtain supra-competitive returns through licensing.<sup>52</sup> Intellectual Ventures—also citing *Actavis* in a brief before the Eastern District of Virginia—contended that a patent owner is allowed to charge above-market royalties as part of the reward of the patent grant.<sup>53</sup> The district court granted Intellectual Ventures’s motion to dismiss, ruling that Capital One had failed to define the market, show anticompetitive conduct, and overcome Intellectual Ventures’s immunity under *Noerr-Pennington*.<sup>54</sup>

For example, in a number of cases, citations to *Actavis* serve to support rule-of-reason analysis as the basis for antitrust scrutiny. In the NCAA litigation over the use of player likenesses, the Northern District of California granted class certification to players and in its analysis quoted language about quick-look rule of reason from Justice Breyer’s decision.<sup>55</sup> In the appeal of the suit brought by the United States against Apple challenging the company’s policy of e-Book pricing, the Washington Legal Foundation filed an amicus brief in support of Apple urging the court to adopt the rule of reason, pursuant to *Actavis*, and not a presumptive rule.<sup>56</sup> Finally, in *Kimble v. Marvel*, the petitioner for certiorari urged the Supreme Court to overrule its *Brulotte* decision,<sup>57</sup> which held that licensing terms extending beyond the term of the patent were preempted because of conflict with the patent statute and Constitution.<sup>58</sup> A brief by a group of university hospitals and medical researchers in support of petitioner argued that the *Actavis* decision supported a rule-of-reason analysis for review of patent licensing in all

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51. See generally Brief of Cross-Appellants at 56, *Intellectual Ventures I LLC v. Capital One Fin. Corp.*, No. 14-1506 (Fed. Cir. Oct. 14, 2014), 2014 WL 5427847.

52. *Id.*

53. Plaintiffs/Counterdefendants’ Reply Brief in Support of Motion to Strike or Dismiss Amended Antitrust Counterclaims 11, 12 and 13 and Motion to Dismiss Eighth Affirmative Patent Misuse Defense at 9–12, *Intellectual Ventures I LLC v. Capital One Fin. Corp.*, No. 1:13-CV-00740, 2013 WL 6682981 (E.D. Va. Nov. 13, 2013), 2013 WL 7018293.

54. See Capital One’s Opposition to Intellectual Ventures’ Motion to Strike or Dismiss Amended Antitrust Counterclaims 11, 12 and 13 and Motion to Dismiss Eighth Affirmative Patent Misuse Defense, *Intellectual Ventures I LLC v. Capital One Fin. Corp.*, No. 1:13-cv-00740, 2013 WL 6682981 (E.D. Va. Dec. 18, 2013), 2013 WL 7018289 (E.D. Va. Nov. 8, 2013).

55. *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, No. C 09-1967, 2014 WL 1410451 (N.D. Cal. Apr. 11, 2014).

56. Brief of Washington Legal Foundation as Amicus Curiae Supporting Appellant Apple, Urging Reversal at 15–20, *United States v. Apple, Inc.*, No. 13-3741 (2d Cir. March 14, 2014), 2014 WL 1100565, at \*15–20.

57. *Kimble v. Marvel Enterprises, Inc.*, 727 F.3d 856, 866 (9th Cir. 2013).

58. *Brulotte v. Thys Co.*, 379 U.S. 29, 30–33 (1964).

instances and cautioned against presumptive rules when patent and antitrust issues overlapped.<sup>59</sup> All of these cases involved intellectual property disputes outside the pharmaceutical industry, and the NCAA litigation concerned right of publicity, trademark, and copyright.

While *Actavis* may support the application of a wide ranging rule-of-reason analysis in antitrust scrutiny of intellectual property-based business practices, the majority decision's pull towards rule of reason also serves to uphold traditional antitrust doctrines that limit judicial review. In *Lakeland Regional Hospital*, the district court dismissed a month before the *Actavis* decision an antitrust claim by several health care providers against a patent owner engaging in an alleged tying arrangement involving a patented medical method and a patented pharmaceutical used in the technique.<sup>60</sup> The court had concluded that the suit was barred because the plaintiffs were indirect purchasers of the patented technology.

In its appellate brief filed a few months after the Supreme Court's ruling in *Actavis*, the health care providers cited the ruling as limiting, and perhaps abrogating, the indirect purchaser rule when patents were involved.<sup>61</sup> The appellants argued that the indirect purchaser effectively barred review of patent validity, contradicting the Court's reasoning in *Actavis*. The Eleventh Circuit affirmed the district court in August, 2014, without a discussion of the *Actavis* issue.<sup>62</sup> Implicit in the Eleventh Circuit ruling is the conclusion that *Actavis* did not upset the indirect purchaser rule even in the context of patents. Similarly in *Pearson v. Allen*, the Southern District of New York rejected the argument that Justice Breyer's discussion placed limitations on *Noerr-Pennington* immunity when patents were at issue.<sup>63</sup> The court simply did not read *Actavis* as upsetting protections for petitioning activity from antitrust scrutiny.

These few cases show a fruitful and enterprising engagement with the scope of the *Actavis* decision. While the courts are correct that the decision does not overrule limitations on justiciability, such as *Noerr-*

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59. Brief of Mem'l Sloan-Kettering Cancer Ctr. & Icahn Sch. of Med. et al. as Amici Curiae Supporting Petitioners, *Kimble v. Marvel Enterprises, Inc.*, No. 13-720 (U.S. Feb. 24, 2014), 2014 WL 768320.

60. *Lakeland Reg'l Med. Ctr., Inc. v. Astellas US, LLC*, No. 8:10-CV-2008, 2011 WL 3035226, at \*1 (M.D. Fla. July 25, 2011).

61. Brief for Appellant at 41, *Lakeland Reg'l Med. Ctr. v. Astella US, LLC*, 763 F.3d 1280 (11th Cir. 2014) (No. 13-12709), 2013 WL 5774765.

62. *Lakeland Reg'l Med. Ctr., Inc. v. Astellas US, LLC*, 763 F.3d 1280 (11th Cir. 2014).

63. *Pearson Educ., Inc. v. Allen Air Conditioning Co.*, No. 08 Civ. 6152, 2014 WL 2154099, at \*1 (S.D.N.Y. May 22, 2014).

*Pennington* and the indirect purchaser rule, there is strong support for the expansion of the Court's ruling to broaden review of intellectual property under the rule of reason. Such a reading of *Actavis* would be consistent with rule-of-reason application to maximum and minimum resale price maintenance, territorial restrictions, and other allegedly anticompetitive practices. The applicability of rule-of-reason analysis to the intersection of antitrust and intellectual property underlies disputes in several other post-*Actavis* disputes.

For instance, MiniFrame developed and sold software that allowed users to operate Microsoft software by multiple users through individual computers connected to a single hard drive.<sup>64</sup> Effectively this software allowed a single hard drive to operate like a network server and the user to acquire a license for a single computer rather than the more expensive network software.<sup>65</sup> When Microsoft changed its licensing terms disallowing this practice, MiniFrame sued Microsoft for antitrust violations.<sup>66</sup> Microsoft answered with blanket immunity under the copyright and patent laws for protecting its proprietary software.<sup>67</sup>

The district court concluded that patent and antitrust were to be considered in conjunction with each other and that Microsoft's blanket immunity argument would prohibit antitrust review of patents and other intellectual property. In reaching this conclusion, the district court rejected MiniFrame's citation to *Actavis* in its reply brief,<sup>68</sup> arguing against Microsoft's claim of antitrust immunity. Quoting Justice Breyer's language that stating patents are not subject to antitrust law is a legal conclusion rather than the starting point for legal analysis, MiniFrame had urged the court in its brief to address the antitrust issues raised by Microsoft's conduct instead of granting immunity. Unfortunately for MiniFrame, the district court sided for Microsoft on the merits, finding no anticompetitive harm stemming from Microsoft's refusal to license.<sup>69</sup> The Second Circuit affirmed.<sup>70</sup> Neither court cited *Actavis*. In its reply brief for petition for certiorari, MiniFrame once again raised its argument

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64. *MiniFrame Ltd. v. Microsoft Corp.*, No. 11 Civ. 7419, 2013 WL 1385704, at \*3–4 (S.D.N.Y. Mar. 28, 2013), *aff'd*, 551 F. App'x 1 (2d Cir. 2013), *cert. denied*, 135 S. Ct. 223 (2014).

65. *Id.* at \*1.

66. *Id.*

67. See Memorandum of Law in Support of Microsoft Corporation's Motion to Dismiss Complaint, *MiniFrame Ltd. v. Microsoft Corp.*, No. 11 Civ. 7419, 2013 WL 1385704 (S.D.N.Y. Mar. 28, 2013) (No. 11CIV7419), 2012 WL 1611421.

68. Reply Brief for Plaintiff-Appellant at 6–9, *MiniFrame Ltd. v. Microsoft Corp.*, 551 F. App'x 1 (2d Cir. 2013), 2013 WL 3990747.

69. See *MiniFrame*, 2013 WL 1385704, at \*9.

70. *MiniFrame*, 551 F. App'x at 1.

under *Actavis*, arguing that the lower court effectively immunized Microsoft's conduct.<sup>71</sup> The Supreme Court, however, denied MiniFrame's petition.

The pull to rule-of-reason analysis under *Actavis* continued with the *Blue Cross Blue Shield* litigation in the Northern District of Alabama.<sup>72</sup> Initiated by several health care providers and insurance companies shortly after the *Actavis* decision, the lawsuit raises issues of antitrust harms stemming from Blue Cross's trademark practices. The defendants, in their motion to dismiss, cited *Actavis* for the proposition that rule-of-reason analysis should apply even outside the patent context.<sup>73</sup> Plaintiffs, in response to the motion, argued that *Actavis* was inapplicable and that *per se* or presumptive illegality treatment was more appropriate.<sup>74</sup> In June 2014, the court denied the motion to dismiss and ruled that it was premature to rule on the correct standard of review.<sup>75</sup> The litigation is still pending as of this writing.

Finally, the antitrust litigation brought by Cascades Computer Innovation against HTC, Samsung, Motorola, LG Electronics, and RPX illustrates deeper policy issues raised by *Actavis* and a potential extension of its holding regarding antitrust scrutiny of patent settlements. The suit, initiated before the *Actavis* decision, alleged that the defendants engaged in a group boycott against Cascades to prevent the company from licensing its patents on telecommunications technology.<sup>76</sup> In a Joint Status Statement filed in June 2014, a number of legal challenges raised by Cascades were discussed.<sup>77</sup> Among them were allegations about RPX's use of *inter partes* proceedings with the United States Patent and Trademark Office to challenge the validity of several Cascades's patents. The district court stated that these allegations of anticompetitive and inequitable conduct are inconsistent with the goals

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71. Reply Brief at 4–5, *Miniframe Ltd. v. Microsoft Corp.*, 135 S. Ct. 223 (2014) (No. 14-60), 2014 WL 4370719.

72. *In re Blue Cross Blue Shield Antitrust Litig.*, 26 F. Supp. 3d 1172 (N.D. Ala. 2014).

73. Reply in Support of Defendants' Motion to Dismiss Plaintiffs' Principal Antitrust Claims at 18–19, *In re Blue Cross Blue Shield Antitrust Litig.*, 26 F. Supp. 3d 1172 (N.D. Ala. 2014) (No. 2:13-CV-20000), 2014 WL 956423.

74. Provider and Subscriber Plaintiffs' Joint Opposition to Defendants' Motion to Dismiss Arguments Common to Both Providers and Subscribers at 5–7, *In re Blue Cross Blue Shield Antitrust Litig.*, 26 F. Supp. 3d 1172 (N.D. Ala. 2014) (No. 2:13-CV-20000), 2014 WL 298652.

75. *In re Blue Cross Blue Shield*, 26 F. Supp. 3d at 1196–97.

76. *Cascades Computer Innovation LLC v. RPX Corp.*, No. 12-CV-01143, 2013 WL 316023, at \*1 (N.D. Cal. Jan. 24, 2013).

77. Joint Status Statement, *Cascades Computer Innovation LLC v. RPX Corp.*, No. 4:12-cv-01143, 2014 WL 2739399 (N.D. Cal. June 13, 2014).

of *inter partes* review and the policies articulated by the majority in *Actavis* regarding the anticompetitive harms from invalid patents.<sup>78</sup> Therefore, Cascades's challenges to the *inter partes* proceedings were unfounded.

The *Cascades* litigation illustrates two points about the wider applicability of the *Actavis* decision. The first is the implications of the ruling for the patent system and its connections with competition policy. As recognized in the Joint Status Statement, the heart of the problem is invalid patents, which go unquestioned through the processes of litigation and settlement. The harm from reverse payment settlements is that patents that should never have been granted continue to be used for enforcement. Mechanisms like *inter partes* review and antitrust scrutiny provide a check on such patent law abuses.

The second point is the echoing in *Cascades* of the discussion of *inter partes* review in the earlier part of this section. Although the issue of settlement of *inter partes* review actions does not arise in the *Cascades* litigation as it has currently unfolded, the use of settlement of these administrative proceedings discussed above strongly supports further expansion of the *Actavis* ruling beyond reverse payment settlements. If, as stated in the Joint Status Statement,<sup>79</sup> challenging patent validity is a vital part of the patent and competition systems, then limits on such challenges may raise concerns similar to those arising from reverse payment settlements. This point is one of the several lessons that we can distill from the post-*Actavis* case law.

### *E. Summary*

Litigants, courts, administrators, and practitioners have been quite active post-*Actavis* in testing how far its holding extends. In the less than two-year period since the June 2013 decision, numerous cases, briefs, motions, and other documents have cited the opinions from the *Actavis* decision. While the uses of *Actavis* have varied, there are consistent themes and arguments that arise in the legal materials. Section Three distills these lessons.

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78. *Id.*

79. See *infra* text accompanying notes 93–94 (discussing purposes of *inter partes* review).

## III. DISTILLING LESSONS

This brief journey through citations to *Actavis* outside the Hatch-Waxman context reveals that there is more to the decision than what most may have discovered in June 2013. But what exactly is it that we see? Creative lawyering and rulemaking may take *Actavis* further than was intended. But there are at least three reasonable interpretations of the opinion that fall within the ambit of patent and antitrust law.

A. *Rule-of-Reason Analysis Applies to Intellectual Property Business Practices*

Antitrust scrutiny of agreements is about characterization at many levels. At the outset, a court must decide whether a *per se* rule of reasonableness applies.<sup>80</sup> This choice is equivalent to that between strict liability and negligence in tort law. The Supreme Court's rejection of presumptions makes the characterization problem even starker.<sup>81</sup> In *Actavis*, the Court opted for rule-of-reason treatment of reverse payment settlements. Such a choice reconciled, or at least balanced, the various conflicting interests raised by such settlements for the rules of competition: the desirability of settlements, the need for enforcement of intellectual property, and the benefits of market entry. Rule-of-reason analysis, guided by principles of competition, allows a court to ascertain the right way to identify anticompetitive agreements that should be forbidden. Legality rests on effects.

A number of post-*Actavis* commentaries and litigation events suggest that the rule of reason may apply to intellectual property agreements outside the purview of reverse payments. This wider casting of the decision implies a deeper set of interests than those implicated by settlements in disputes over the entry of generic pharmaceuticals. If the rule of reason applies to all intellectual property agreements, the balance is among the need for exclusive rights for innovation, the rights holders' use of contracts to realize value from those rights in the marketplace, the distribution of the protected technology to consumers, and the role of competition in sparking innovation and promoting distribution. Critics of *Actavis* would argue that Congress found the balance among these interests through the creation of rights that were largely immune from antitrust scrutiny. What *Actavis* teaches is that the configuration of

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80. See Thomas A. Piraino, Jr., *Reconciling the Per Se and Rule of Reason Approaches to Antitrust Analysis*, 64 S. CAL. L. REV. 685, 685-88 (1991) (describing *per se* and rule-of-reason conduct).

81. *Cal. Dental Ass'n v. FTC*, 526 U.S. 756 (1999).

rights cannot be separated from questions of competition. The rule of reason mandates consideration of the differing mechanisms for competition recognized under intellectual property and antitrust laws.

This first lesson asks much of the rule-of-reason analysis. Justice Brandeis looms heavily over this reading. In his famous opinion in *Chicago Board of Trade*,<sup>82</sup> Justice Brandeis promoted a strong form of rule of reason, with courts striking balances through empirical consideration of market effects. A critique of Brandeis's approach is that it is not practical for courts to engage in such analysis in all cases.<sup>83</sup> The consequence is less enforcement of the antitrust laws, as the rule of reason raises enforcement costs. Procedural and substantive rules would have to arise in order to contain reasonableness analysis. What would those limits be in a post-*Actavis* world of intellectual property and antitrust?

We do not fully know the answer to this last question. Presumptions are eschewed, but necessary. The presumption of validity in patent law may weigh in favor of patent rights in antitrust law. But business practices involving intellectual property proliferate without much guidance as to what is permissible. Justice Breyer offers a list of warning signs that a reverse payment agreement is unreasonable.<sup>84</sup> These signs include the size of the settlement, strength of the patent, and other factors. If we think common law antitrust and intellectual property evolves effectively, we might find that courts devise standards and checklists for other business practices. Such devices may develop into *per se* rules. Or, quite possibly, the costs to the judicial system for developing these standards may lead to retrenchment and a limitation on *Actavis* to its particular facts.

What would be desirable is some direction from Congress or, more likely, from the Department of Justice and FTC on the proper scope of *Actavis* and its rule of reason. Although the 1995 *Joint Guidelines* on

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82. *Chi. Bd. of Trade v. United States*, 246 U.S. 231, 235 (1918).

83. See, e.g., Maurice E. Stucke, *Does the Rule of Reason Violate the Rule of Law?*, 42 U.C. DAVIS L. REV. 1375 (2009).

84 .

In sum, a reverse payment, where large and unjustified, can bring with it the risk of significant anticompetitive effects; one who makes such a payment may be unable to explain and to justify it; such a firm or individual may well possess market power derived from the patent; a court, by examining the size of the payment, may well be able to assess its likely anticompetitive effects along with its potential justifications without litigating the validity of the patent; and parties may well find ways to settle patent disputes without the use of reverse payments.

FTC v. *Actavis, Inc.*, 133 S. Ct. 2223, 2237 (2013).

intellectual property licensing were several decades in the making,<sup>85</sup> the applications of the rule of reason expounded there may shed light on the application of *Actavis* to other agreements involving patents and its sibling forms of intellectual property. The 1995 *Joint Guidelines* may serve as an intermediate step to a fuller statement on the application of *Actavis*. That next stage will be necessary if the chief lesson from Justice Breyer's decision is that the rule of reason governs all intellectual property transactions.

*B. Actavis is Not Limited to Regulated Industries*

The rich factual contexts in which *Actavis* has been raised during its brief existence points to its domain beyond the narrow world of Hatch-Waxman. Even if conceived in debates over generic pharmaceuticals, the facts of the case speak to limitations on market exclusivity created by intellectual property laws. According to Chief Justice Roberts, these limitations arise only if the patent was fraudulently obtained or enforced through sham litigation.<sup>86</sup> Justice Breyer notes that there are broader limitations arising from business transactions that might have an adverse effect on the market.<sup>87</sup> Justice Breyer's reading takes the holding outside the matter out from the strictures of specific market regulation.<sup>88</sup>

The challenging question is whether there are general rules of market competition that transcend specific markets or industries.

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85. U.S. DEPT. OF JUSTICE & FTC, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 2.2 (1995) [hereinafter JOINT GUIDELINES], available at <http://www.usdoj.gov/atr/public/guidelines/0558.pdf>.

86.

If [the patent owner's] actions are within the scope of the patent, they are not subject to antitrust scrutiny, with two exceptions concededly not applicable here: (1) when the parties settle sham litigation, and (2) when the litigation involves a patent obtained through fraud on the Patent and Trademark Office.

*Actavis*, 133 S. Ct. at 2239 (internal citations omitted).

87. "Given these factors, it would be incongruous to determine antitrust legality by measuring the settlement's anticompetitive effects solely against patent law policy, rather than by measuring them against procompetitive antitrust policies as well." *Id.* at 2231.

88.

Finally, the Hatch-Waxman Act itself does not embody a statutory policy that supports the Eleventh Circuit's view. Rather, the general procompetitive thrust of the statute, its specific provisions facilitating challenges to a patent's validity, see Part I-A, *supra*, and its later-added provisions requiring parties to a patent dispute triggered by a paragraph IV filing to report settlement terms to the FTC and the Antitrust Division of the Department of Justice, all suggest the contrary.

*Id.* at 2234 (internal citation omitted).

Economic theory points to requirements on market demand, cost curves, information, and externalities that imply particular forms of competition.<sup>89</sup> Variations on these different dimensions lead to different competitive conditions, labeled perfect competition, oligopoly, monopolistic competition, and other ideal forms. The problem is that predictions on behavior and policy are not completely clear within these forms. Nor is it clear that these forms are exhaustive of the types of possible competition. What then are judges and policymakers supposed to do against the conflicting predictions?

Deference to Congress or state legislatures might offer some consolation. Hence, the antitrust exceptions for regulated industries avoid the complications of market analysis by relying on legislative findings and conclusions as enacted into statutes. As Congress deregulates, however, courts are thrown back onto the mass of economic studies from which to distill rules about competition. The Court's settling on rule-of-reason analysis in *Actavis* is a succinct way of saying case-by-case analysis is based on the facts of a particular market or industry. We are left with the dilemmas discussed in the previous subsection.

But the second lesson does not simply devolve into the first lesson. They are distinct despite potential overlap. What the second lesson teaches is that Justice Breyer has, to a large extent, taken the question of competition and intellectual property outside the purview of the legislature and placed it in the broader sphere of the common law. Statutory regulation is replaced with common law regulation. Whatever guidance courts can provide, however, is yet to be seen.

### *C. Inter Partes Settlement Should Be the Next Target of Antitrust Scrutiny Under Actavis*

Settlements of administrative actions might be the most salient extension of *Actavis*'s rule against anticompetitive patent agreements. These settlements are noticeable in the area of *inter partes* review, a new USPTO procedure to challenge patent validity under the America Invents Act. Replacing the ineffective *inter partes* reexamination created in 1999<sup>90</sup> under the 1952 Patent Act, the provisions creating *inter partes* review were effective as of September 16, 2012. The USPTO website

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89. See HERBERT HOVENKAMP, THE OPENING OF AMERICAN LAW 212–13 (2015).

90. See, e.g., Mark D. Janis, *Inter Partes Patent Reexamination*, 10 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 481 (2000).

reports that as of August, 2014, there have been 1700 *inter partes* review proceedings instituted.<sup>91</sup>

An *inter partes* review allows a party other than the patent owner to challenge the validity of a patent on novelty and non-obviousness grounds based on new prior art. A party other than the patent owner can initiate the proceeding upon nine months after the grant of a patent or upon completion of a post-grant review. This last proceeding was also created under the AIA and allows challenges on any substantial new question of patentability within nine months after the grant of a patent. Both *inter partes* reviews and post-grant reviews can be terminated through settlement. The terms of the settlement must be approved by the Patent Trial and Appellate Board before which such proceedings are held.

The *inter partes* review proceeding has been more often used than the post-grant review proceeding. This disparity reflects rules limiting post-grant review to covered business method patents before March 16, 2013. According to USPTO statistics, there have been 212 filings on covered business method patents as of the end of August, 2014.<sup>92</sup> Since the post-grant review process was fully implemented in March 16, 2013, there have been two reported proceedings on Westlaw.<sup>93</sup>

The purpose of both new proceedings is to permit early challenges to the validity of a patent. Since patent prosecution is an *ex parte* process, third parties cannot directly challenge patent validity. This approach contrasts with trademark prosecution which permits pre-grant opposition. Traditionally, third party challenges to patent validity occurred through litigation either as a defense to infringement or through a declaratory judgment action. With the implementation of *inter partes* reexamination in 1999, third party administrative challenges to validity became possible. But this procedure was found too cumbersome to use and was not popular. As a result, it was replaced with the *inter partes* and post-grant review procedures. To quote the language in the *Cascades* Joint Status Statement cited in Section Two, *inter partes* review (and by logical extension post-grant review) was implemented to allow third parties to challenge the validity of patents.<sup>94</sup>

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91. U.S. PATENT & TRADEMARK OFFICE, AIA STATISTICS, [http://www.uspto.gov/aia\\_implementation/statistics.jsp](http://www.uspto.gov/aia_implementation/statistics.jsp) (last updated Aug. 31, 2014).

92. *Id.*

93. This information is based on a search conducted by the author on December 5, 2014. The search was done of 35 U.S.C. § 326 in the Patent Trial and Appeals Board Decisions database. According to data compiled on Lex Machina, one post-grant review was filed in 2013 and three in 2014.

94. Joint Status Statement, *Cascades Computer Innovation LLC v. RPX Corp.*, No 4:12-cv-01143, 2014 WL 2739399, at \*4 (N.D. Cal. June 13, 2014).

Since September 16, 2012, there have been nearly 700 motions to settle *inter partes* review under section 317(a) or 317(b).<sup>95</sup> Space limitations restrict a full analysis of these motions and their dispositions here. The two motions discussed in Section Two—the one involving Blackberry, the other involving Medline—are the only ones that cite *Actavis*. Although those two references, both to Justice Roberts’s dissent, support the settlement motions, there are reasons for further antitrust scrutiny of these settlements under the majority reasoning in *Actavis*. My main conclusion from this Article is that future antitrust enforcement actions should focus on *inter partes* settlements.

The principal reason for antitrust actions against *inter partes* settlements is the one articulated in the *Cascades* Joint Status Statement. The procedure was designed to protect against the harmful effects of invalid patents. Patents that should not have been granted provide no benefit for innovation. Furthermore, when enforced, invalid patents impose limits on competition either through an injunction or through a transfer of royalty payments, potentially bankrupting the alleged infringer. Property rights are misallocated with deadweight loss to society that provides no dynamic benefits. Settlements to *inter partes* proceedings would potentially fail under the rule of reason if there is evidence that a patent might be invalid.

Countering this argument against *inter partes* settlements would possibly be the typical counterpoint that settlement of disputes has inherent benefits.<sup>96</sup> This counterpoint is inapposite to the *inter partes* procedure. The virtue of settlements is touted in the instance of private disputes. Since litigation has costs both private and social, settlements mitigate those costs. Furthermore, settlements limit the escalation of litigation costs as each side seeks to obtain an adversarial advantage. However, in the case of administrative proceedings, these escalations of costs are more contained and less likely to occur. In addition, administrative challenges to patent validity are not a purely private dispute. Challengers serve the public interest by introducing prior art that may not otherwise be discovered and removing non-innovative patents from the system. Consequently, settlements for administrative proceedings do not have the same virtues as settlements of litigation.

More importantly, *inter partes* settlements are suspect under antitrust laws. Unlike reverse payment settlements, *inter partes* settlements do not temporally divide the market, requiring the

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95. See 35 U.S.C. §§ 317(a)-(b) (2011).

96. See *Profl Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49 (1993).

challenger to stay outside the market for some time. But settlements requiring the challenger, often an alleged infringer, to drop the claims of invalidity in exchange for the dropping of a lawsuit sometimes permit invalid patents to continue. As a result, market entry is deterred, and invalid patents remain to be enforced. The result is similar to a market division that allows the patent owner to keep a market position while creating a barrier to entry not based on innovation or some other legitimate business advantage.

The challenge is to identify factors that permit a workable rule-of-reason analysis. As a matter of both theory and practice, the appropriate analysis would involve an assessment of patent validity that would not effectively disturb legitimate settlements. The closest analogy would be to a *Walker Process* claim where a patent was obtained through fraud on the USPTO. Under such claims, there must be evidence of fraud and of a harmful effect on the market from the award of the patent under Section Two of the Sherman Act. However, the claim I am proposing would be a Section One violation, which does not require a showing of market power and market harms as required for claims of monopolization. A “sham settlement,” on the other hand, may give rise to an antitrust claim if there is strong evidence of patent invalidity and payments (cash or otherwise) that approximate splitting rents in a duopoly market. In this way, a sham settlement claim would be different from a sham litigation claim, which requires a showing of objective and subjective baselessness in bringing the infringement lawsuit.

The third lesson from the post-*Actavis* environment is that settlement activity other than reverse payments might be suspect. But the venue for settlement seems to have shifted from the courts to the USPTO. With this shift, antitrust enforcers need to change their gaze and investigate whether patent owners have found another way to shield their invalid patents from scrutiny.

#### IV. CONCLUSION

The common law process is an evolutionary one, whether it applies to traditional state law actions or to interpretations of federal statutes. At the same time, narrow interpretations of a judicial decision are favored over broad and far-reaching ones. How judicially determined rules evolve is through the application of identified rules to new facts. Litigants play a critical role in expanding these applications as they utilize precedents in support of new propositions that aid in their arguments.

These well-known processes are at work in the evolution of our understanding of the *Actavis* decision. Although on the surface a narrow ruling, Justice Breyer’s opinion resonates on several dimensions of the

intersection of patent and antitrust. Do antitrust and patent laws operate in different spheres? Do antitrust and patent laws overlap? The majority opinion answers no to the first question and yes to the second. What challenges courts and policymakers is the extent of the overlap and implications for intellectual property business practices and antitrust enforcement.

This Article addressed the question of *Actavis's* implications as a matter of first impression. Of course, as time passes, more legal documents will help to track the case's influence. This preliminary investigation, conducted less than two years after the Supreme Court's pronouncement, identifies enterprising arguments that build on *Actavis's* promise. What is clear is that *Actavis's* reach is broader than its specific facts. Whether the decision is a watershed or a temporary diversion is largely up to advocates, judges, and policymakers to determine.